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Oregon Audits Division

State Auditor's Report 2001-2003 Biennium

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Bill Bradbury, Secretary of State

Cathy Pollino, State Auditor



Auditing to protect the public interest and improve Oregon government.

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Mission:

To protect the public interest and improve Oregon government

Vision:

To be the place for people to turn to get independent, reliable, useful information on Oregon government

Goals:

Goal #1 – Quality Products: Citizens, the legislature, and government managers are our customers. We are dedicated to producing a quality product that meets our customers' needs in a timely, accurate, professional, and efficient manner.

Goal #2 – Quality Employees: Our employees are our only resource. We are dedicated to enhancing our employees' skills through education and training, providing the tools necessary to best utilize those skills, and expanding opportunities for our staffs' professional development.

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Overview

“The Secretary of State shall keep a fair record of the official acts of the Legislative Assembly, the Executive Department of the State; and shall when required lay the same, and all matters relative thereto before either branch of the Legislative Assembly. He shall be by virtue of his office, Auditor of Public Accounts, and shall perform such other duties as shall be assigned to him by law.”

- Oregon Constitution, Article VI, Section 2

Secretary of State– Auditor of Public Accounts

In 1929, the Legislative Assembly established the Audits Division to carry out the duties of the Secretary of State as the Constitutional Auditor of Public Accounts. The Audits Division is the only independent auditing organization in the state with authority to review programs in all three branches of state government and other organizations that receive state money.

The Audits Division fulfills its duty as Auditor of Public Accounts by performing financial, performance, and information technology audits. This division also manages the state’s Municipal Audit Program, and the State’s Fraud, Waste, and Abuse Hotline.

Financial audits provide third parties with assurance on the accuracy and reliability of financial information, and make recommendations to improve the processes and controls used to manage the state’s resources. A major responsibility of the division is the yearly audit of the state’s annual financial statements. This audit, the largest of public funds in the state, complies with the Single Audit Act of 1984, which requires such an audit annually as a condition of eligibility for more than \$6 billion in federal funds.

Performance audits provide decision makers with management information on government operations to aid decision-making, and make recommendations to help government work smarter and improve performance. These audits help determine whether agencies acquire, protect, and use their resources economically and efficiently, and whether they are achieving desired results.

Information technology audits provide an independent assessment of the processes and controls governing the state’s information systems and make recommendations to improve system efficiency, effectiveness, confidentiality, integrity, availability, and reliability.

Finally, the division conducts special studies and investigations regarding the misuse of state resources. Our role is to ensure that losses are fully uncovered and to make recommendations to prevent future occurrences.



History

I have incurred a debt of \$95, on account of the Auditor's Office:

<i>Office rent for five months</i>	<i>\$40</i>
<i>Pigeon hole case</i>	<i>\$40</i>
<i>Office sign</i>	<i>\$10</i>
<i>One cord of wood</i>	<i>\$5</i>

- B.F. Bonham, Territorial Auditor
Auditor's Report, 1857

Oregon's Auditing Tradition

The Oregon Territorial Statute, in defining the duties of the Territorial Auditor, said that it is the duty of the office to do "as he may deem expedient for the support of public credit, for lessening the public expenses, for using public money to the best advantage, for promoting frugality and economy in public offices, and generally, for the better management and more perfect understanding of the fiscal affairs of the Territory."

The first audits in Oregon focused mainly on financial compliance. (In one case, the Territorial Auditor sued Jackson County because it was late with its tax reporting.) However, by the Eighth Territorial Session, Territorial Auditor B.F. Bonham began producing what we would now call "performance audits." In one report, he recommended that the keeper of the penitentiary work the convicts, thus making them a source of revenue rather than a drain on the taxpayers.

Interestingly enough, when Oregon's Attorney General later was asked to clarify the powers of the Secretary of State in terms of auditing authority, he concluded that the "powers in the Territorial Statutes were incorporated by Article VI of the Oregon Constitution which makes the Secretary of State 'Auditor of Public Accounts.'"

Therefore, when it comes to making recommendations on "lessening public expenses, ...for using public money for the best advantage and promoting frugality in government," the Attorney General concluded the Secretary of State not only has "virtually unlimited discretion concerning what to include in such reports," but also has the "duty" to make recommendations to the legislature.

Ensuring accountability in government and "lessening the public expenses" is part of a 150-year-old tradition in Oregon that we are proud to continue.



Our Office

To accomplish our mission, we rely on a workforce of highly trained professionals who hold certifications and degrees in many academic disciplines.

Staff Qualifications

The Audits Division is made up of 63 professional audit staff, nine audit managers, and five support staff. At a minimum, all management and audit staff hold a bachelor's degree, while 18 hold advanced degrees. In addition, we encourage staff to become Certified Public Accountants (CPAs) and to obtain other certifications. At present, 75 percent of our staff have a professional certification or a master's degree, including 30 CPAs, 5 Certified Information System Analysts, 2 Certified Fraud Examiners, 2 Certified Government Financial Managers, 2 Certified Government Audit Professionals, 1 Certified Financial Manager, and 1 Certified Management Analyst.

We also place great importance on developing qualified staff. We encourage and provide opportunities for all staff to develop their professional skills to the fullest extent. New employees, in addition to on-the-job training, must complete a core curriculum of classes that provide a firm foundation for their professional tasks. All auditors receive at least 80 hours of training every two years. This training ensures auditors maintain and build competency as well as comply with Government Auditing Standards. Because our auditors perform all types of audits, we ensure they receive diverse experiences and training that will enable them to work on all types of audits.

The Audits Division's commitment to training extends to auditors and accountants throughout state government. Many of the in-house classes we offer are open to other agency personnel. We also organize and hold seminars throughout the year, which are open to state accounting, auditing, contracting, and other personnel.



Government Waste Hotline

Oregon Revised Statutes, sections 177.170 and 177.180 established a toll-free hotline for reporting waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies.

Public Involvement

In early 1995, a new outreach effort was launched to encourage citizens and government employees to report waste and misspending of tax dollars. The “hotline” was established for people to call and report information directly to the Audits Division. The 24-hour number is 800-336-8218.

Citizens can either leave information anonymously or provide their names, addresses and phone numbers so they can be contacted for additional information or follow-up. Computer users may contact the Audits Division through the Internet address of Audits.Hotline@state.or.us.

As taxpayers are asked to dig into their pockets to support government, efficiency has to be a top priority. People have a right to report perceived government misuse and waste, and to expect accountability. Our hotline provides that avenue for public involvement.

Some of our best tips have come from government workers. They know where many of the problems are, and want to correct them. The hotline gives workers a simple and effective method of reporting their concerns. Citizens and government workers can have a real impact on government efficiency with the information they send to the Audits Division.

Since its inception in 1995, the Hotline has received more than 1,600 calls. All hotline messages are logged into a database and reviewed to determine whether sufficient information was provided, whether a callback is possible, and whether the described concern can be audited or if it should be referred to another authority. To date, almost \$3.9 million in questioned costs have been identified in audit reports that stemmed from issues disclosed to the hotline.



Financial Audits

The need for our traditional audit services remains strong.

Ensuring Fiscal Accountability

Oregon's financial system is very large and complex. One of the primary audits we conduct each year is the single audit of the state's financial statements. Although this is formally called the single audit, it includes both our review of the state's Comprehensive Annual Financial Report and the state's internal controls and compliance with federal funding requirements, which are reported on separately. We perform the single audit to satisfy the Legislature, the governor, and citizens that the state's financial statements are presented fairly and that significant deficiencies in its fiscal systems are identified and corrected. We also conduct this audit to fulfill the federal government's mandate to audit the more than \$6 billion it provides the state each year. Because underwriters, bond rating companies, and potential investors may rely on these statements and opinions, the audit work we perform represents a critical element in the state's financial system.

Recent business failures have shaken public confidence in financial reporting and auditing. To restore that confidence, the accounting and auditing professions have moved to strengthen the rules that guide those who prepare financial statements and those who audit them. The quality control processes that apply to the audit profession are also being strengthened. Because we believe credible financial reporting is the cornerstone of public confidence in the institutions of government, we are proactively adopting these proposed new rules before they are required.

During this past biennium, we twice completed our largest audit, the annual audit of the state's Comprehensive Annual Financial Report, as well as our annual audits on federal compliance and internal control, and 22 financial statement opinion audits. We also made strategic use of private sector auditors to supplement the work of our financial audit staff and to provide additional expertise where needed. During fiscal years 2001-2003, we contracted out 14 financial statement opinion audits and 18 audits of federal programs. In compliance with ORS 297.210(2), we completed 42 change-of-director audits or reviews. Finally, we completed three resource management audits, which focus on improving fiscal controls, and two mandated compliance audits.



2001-2003 In-House Financial Audits

- *Oregon State Treasury: Review of Internal Controls (#2001-36), August 22, 2001*
- *Oregon State Treasury: Oregon Short-Term Fund (#2001-45), October 18, 2001*
- *Oregon Department of Veterans' Affairs (#2001-54), December 17, 2001*
- *Oregon Housing and Community Services Department (#2001-57), December 28, 2001*
- *Public Employees Retirement System (#2001-58), December 28, 2001*
- *Columbia River Gorge Commission (#2002-05), February 4, 2002*
- *Oregon State Lottery Commission (#2002-08), February 19, 2002*
- *Federal Compliance Report and Internal Control (#2002-10), February 28, 2002*
- *Oregon Economic and Community Development Department: Special Public Works Fund (#2002-16), April 23, 2002*
- *Office of Energy: Small Scale Energy Loan Program (#2002-19), May 6, 2002*
- *Oregon Economic and Community Development Department: Water Fund (#2002-20), May 13, 2002*
- *Oregon Department of Transportation: Oregon Transportation Infrastructure Fund (#2002-21), May 20, 2002*
- *Oregon State Treasury: Oregon Short-Term Fund (#2002-30), August 28, 2002*
- *Oregon State Treasury: Review of Internal Controls (#2002-42), November 26, 2002*
- *Oregon Housing and Community Services Department (#2002-47), November 20, 2002*
- *State of Oregon Comprehensive Annual Financial Report for 2002 (#2002-48), December 2002*
- *Public Employees Retirement System (#2003-02), January 15, 2003*
- *Oregon Department of Veterans' Affairs (#2003-03), January 30, 2003*
- *Federal Compliance Report and Internal Control (#2003-06), February 28, 2003*
- *Columbia River Gorge Commission (#2003-07), March 5, 2003*
- *Oregon State Lottery Commission (#2003-08), March 10, 2003*
- *Oregon Department of Transportation: Oregon Transportation Infrastructure Bank (#2003-13), March 31, 2003*
- *Oregon Economic and Community Development Department: Special Public Works Fund (#2003-15), April 22, 2003*
- *Oregon Economic and Community Development Department: Water Fund (#2003-18), May 21, 2003*
- *Office of Energy: Small Scale Energy Loan Program (#2003-19), June 1, 2003*

2001-2003 Contracted Financial Audits

- *Oregon State Bar: Professional Liability Fund (#2001-28), July 3, 2001*
- *State Accident and Insurance Fund Corporation (#2001-43), October 10, 2001*
- *State Board of Architect Examiners (#2001-44), October 15, 2001*
- *Oregon Beef Council (#2001-47), October 29, 2001*
- *Children's Trust Fund of Oregon (#2001-48), November 8, 2001*
- *Oregon University System (#2002-06), February 8, 2002*
- *Oregon Student Assistance Commission (#2002-07), February 11, 2002*
- *Oregon State Bar: Professional Liability Fund (#2002-24), June 10, 2002*
- *Oregon State Bar: Oregon State Bar Fund (#2002-28), June 26, 2002*



2001-2003 Contracted Financial Audits (cont.)

- *State Accident and Insurance Fund Corporation (#2002-36), October 14, 2002*
- *State Accident and Insurance Fund Corporation – Statutory Basis Financial Statements (#2002-37), October 14, 2002*
- *Oregon Beef Council (#2002-38), October 28, 2002*
- *Oregon Student Assistance Commission (#2003-04), February 13, 2003*
- *Oregon University System (#2003-10), March 11, 2003*

2001-2003 Change of Director Audits or Reviews

- *Oregon Commission on Asian Affairs (#2001-29), July 9, 2001*
- *Oregon State Fair and Exposition Center (#2001-31), August 2, 2001*
- *Adult and Family Services Division (#2001-32), August 3, 2001*
- *Department of Human Services (#2001-35), August 22, 2001*
- *Oregon Board of Psychologist Examiners (#2001-38), September 13, 2001*
- *Oregon Commission on Black Affairs (#2001-39), September 13, 2001*
- *Oregon Disabilities Commission (#2001-40), October 1, 2001*
- *Oregon Commission for the Blind (#2001-41), October 12, 2001*
- *Oregon Department of Transportation (#2001-42), October 12, 2001*
- *Department of Environmental Quality (2001-49), November 9, 2001*
- *Oregon Public Employees Retirement System (#2001-52), November 23, 2001*
- *Construction Contractor’s Board (#2002-01), January 3, 2002*
- *Oregon Department of Fish and Wildlife (#2002-12), March 14, 2002*
- *Oregon State Board of Parole and Post-Prison Supervision (#2002-14), April 1, 2002*
- *Seniors and People with Disabilities (#2002-15), April 15, 2002*
- *Oregon Health Division (#2002-17), April 23, 2002*
- *Department of Land Conservation and Development (#2002-22), June 6, 2002*
- *Oregon Board of Licensed Professional Counselors and Therapists (#2002-26), June 20, 2002*
- *Oregon Board of Investigators (#2002-27), June 20, 2002*
- *Oregon Employment Department (#2002-31), September 6, 2002*
- *Department of Corrections (#2002-34), October 1, 2002*
- *Oregon Commission on Hispanic Affairs (#2002-04), January 3, 2002*
- *Oregon Dispute Resolution Commission (#173-2003-02-01), February 6, 2003*
- *Oregon Commission on Hispanic Affairs (#118-2003-02-01), February 6, 2003*
- *Oregon State Board of Tax Practitioners (#119-2003-02-01), February 6, 2003*
- *Oregon Teachers Standards and Practices Commission (#584-2003-02-01), February 6, 2003*
- *Department of Administrative Services (#107-2003-03-01), March 20, 2003*
- *Oregon Board of Psychologist Examiners (#122-2003-03-01), March 20, 2003*
- *Office of Public Defense Services (#404-2003-03-01), March 20, 2003*
- *Oregon Racing Commission (#862-2003-04-01), April 1, 2003*
- *Oregon Department of Forestry (#629-2003-04-01), April 2, 2003*
- *Department of Human Services (#410-2003-04-01), April 2, 2003*



2001-2003 Change of Director Audits or Reviews (cont.)

- *Oregon Liquor Control Commission (#845-2003-04-01), April 3, 2003*
- *Oregon Economic and Community Development Department (#123-2003-04-01), April 8, 2003*
- *Oregon State Lottery (#177-2003-04-01), April 11, 2003*
- *Department of Agriculture (#603-2003-04-01), April 18, 2003*
- *Oregon Department of Education (#581-2003-04-02), April 29, 2003*
- *Department of Consumer and Business Services (#440-2003-05-01), May 1, 2003*
- *Bureau of Labor and Industries (#839-2003-05-01), May 14, 2003*
- *Office of the Governor (#121-2003-05-01), May 21, 2003*
- *Office of Energy (#330-2003-06-01), June 6, 2003*
- *Physical Therapist Licensing Board (#2003-21), June 9, 2003*

2001-2003 Resource Management Audits

- *Oregon State Police: Payroll Audit (#2002-11), March 12, 2002*

The purpose of this audit was to determine if the Department of Oregon State Police complied with the applicable laws and regulations regarding payroll. We found that the department did not maintain adequate documentation of overtime worked by its employees. The department did not ensure that timesheets were free of calculation errors. We also noted several instances in which employees were scheduled to work overtime shifts without receiving a minimum of a ten-hour consecutive break between shifts.

- *Oregon Public Employees Retirement System (PERS): Benefit Calculation Audit (#2002-35), October 8, 2002*

The purpose of this audit was to determine whether PERS accurately calculated retirement benefits in compliance with laws and regulations. We found that 15 percent of the 200 calculations reviewed had errors that financially impacted the member or the employer, or both. Errors in payments to members totaled \$15,826, with \$5,307 being overpayments and \$10,519 being underpayments. Errors to reserve accounts totaled \$58,469.

- *Department of Education: Trust Fund Review (#2003-01), January 22, 2003*

The objective of our audit was to review and evaluate internal controls over the processing of administrative and student trust fund transactions at the Oregon School for the Blind and the Oregon School for the Deaf. We found that segregation of duties, physical controls over cash and important documentation, independent monitoring, and documentation of authorization for certain transactions could be improved. We also found that improvements could be made to the disbursement forms used by the schools. Finally, the department could improve how it tracks donations and allocates interest on donated funds.



2001-2003 Financial Compliance Audits

- *Oregon Emergency Management: Use of 9-1-1 Telephone Tax for Emergency Communications (#2002-41), November 13, 2002*

The purpose of this audit was to determine whether Oregon's cities and counties complied with state laws regarding the use of 9-1-1 telephone taxes. We identified \$330,500 in unauthorized expenditures. We also found that eleven cities and counties accumulated cash balances of approximately \$3.3 million that were intended to pay for the operation of their jurisdictions' call centers.

- *Audit of Agencies Spending of Measure 66 Funds (#2002-46), December 31, 2002*

This audit fulfills a constitutional requirement that an independent audit be performed of agencies receiving and expending Measure 66 funds. Measure 66 dedicated a portion of lottery fund proceeds for parks, beaches, and habitat and watershed restoration. We found that expenditures between July 1, 1999 and June 30, 2001 complied with the intended uses of those funds. However, since a significant portion of those funds (approximately \$4 million) were not obligated as of June 30, 2002, we were unable to conclude as to whether 65 percent of the Restoration and Protection Subaccount was expended on or obligated to capital projects, as required.



Performance Audits

Earning public confidence requires the state to demonstrate rigorous and objective scrutiny of the performance of government.

Managing Risks

Government continues to adjust its activities and methods of program delivery, and these changes are occurring at a time of difficult financial pressures and economic uncertainty. Any organization undertaking significant change is open to numerous risks that must be managed and mitigated.

Here in Oregon, we are experiencing fluctuations in the size of public programs, which in turn impacts management capacity to deal with significant change. Alternative service delivery arrangements, such as contracting out, require that managers obtain new skills to deal with new risks and to monitor whether public policy goals are achieved efficiently. During this period of change, agencies risk being less effective as staff adapt to new roles and responsibilities. Additionally, when significant change occurs during a period of financial pressure and economic uncertainty, organizations often respond by making decisions with greater speed and with less attention to detail than they would normally. In light of these risks, it is more important than ever that the Audits Division carries out its duty of ensuring the effective and responsible delivery of essential public services.

Performance auditing is an objective and systematic examination of evidence to provide an independent assessment of a government organization, program, activity, or function. The goal of these audits is to provide information to improve public accountability and facilitate decision-making by parties with responsibility for overseeing or initiating corrective action. The issues that performance audits cover vary, but generally either address whether agencies are operating economically and efficiently, or whether they are achieving desired results.

To facilitate legislative oversight of agencies, we report quarterly to the Joint Legislative Audit Committee and to other legislative committees, depending on the subject matter of our audits. For certain audits, agency directors also report their action plans in response to our audit recommendations to the committees.

During fiscal years 2001-2003, we released 16 performance audit reports. Of those, nine audits focused on fiscal accountability to ensure that public funds were used economically and efficiently, and seven audits were informational reports designed to facilitate decision-making. The fiscal accountability audits identified cost savings or questioned costs totaling more than \$25 million, or \$14 for every \$1 of audit costs.



20Q1-2003 Fiscal Accountability Audits (cont.)

- *Department of Education: Special Review – Personnel (#2002-23), May 31, 2002*

The purpose of this audit was to review personnel issues related to the department's acquisition of school district employees. During the course of this audit, we expanded our procedures to include a review of payments made to department employees in addition to their regular salaries. We found that the department could improve its personnel practices in some areas, such as ensuring competitive recruitment for positions and maintaining adequate documentation to support personnel actions and payments. We also found that a former executive employee was overpaid \$18,700 for work performed and that the department had an employee award program that violated state policy. Finally, we identified some instances of personal telephone use that appeared to violate state policy.

- *Oregon State Lottery: Administrative Expense Audit (#2002-40), November 12, 2002*

This audit was conducted to identify opportunities for the Oregon State Lottery to reduce its use of public funds for administrative expenses. Any reductions in administrative expenses would increase the amount of funds available for other public purposes, such as creating jobs, furthering economic development, and financing public education. We found that Lottery could reduce its use of public funds on administrative expenses in various areas, including meetings, training, travel, cellular phones, Employee Recognition Program, Community Relations Program, and leave reporting for partial-day absences, thus making these funds available for other public purposes. Of the \$1.6 million in administrative expenses reviewed, we identified approximately \$792,000 that could have been avoided or reduced.

- *Department of Human Services: Contracting Practices (#2002-43), November 26, 2002*

The purpose of this audit was to determine if the Department of Human Services' contract procurement and administration practices were adequate and complied with applicable laws and regulations. For the 1999-2001 biennium, the department entered into more than 6,000 contracts ranging in value from less than \$1,000 to more than \$6 million. We identified opportunities for the department to improve in the areas of contract administration and payments, contract solicitation and selection, and record keeping. Specifically, our recommendations address such problems as improper or inadequate: payments, solicitation practices, sole source and short-term contracts, bidder notifications, and file documentation.



2001-2003 Fiscal Accountability Audits (cont).

- *Oregon Department of Administrative Services: Seasonal vs. Temporary Employees (#2003-11), March 17, 2003*

The purpose of this audit was to examine the current restrictions on the use of temporary employees to determine whether the state could more economically meet some of its short-term workload needs if agencies were allowed to use temporary employees rather than seasonal employees. In Oregon, seasonal employees receive benefits and paid leave not provided to temporary employees. We found that state managers could more economically meet their recurring short-term workload needs if they were allowed to use temporary employees in more situations. Current law requires agencies to fill positions that are recurring by the nature of the work with seasonal employees, without regard to the necessary skills and qualifications for the position. We also found that Oregon pays more in benefits for short-term employees than most states. We estimate that the state could have saved between \$12.6 million and \$39.6 million dollars during fiscal years 1998-2002 had prior audit recommendations been implemented.

- *Department of Human Services: Temporary Assistance for Needy Families Eligibility Review (#2003-16), April 29, 2003*

The purpose of this audit was to determine whether clients who received Temporary Assistance for Needy Families (TANF) cash benefits met specific eligibility requirements for household income, deprivation due to the continued absence of a parent, and the existence of an eligible child in the household. We concluded that the rate of ineligible clients receiving TANF cash benefits was within reasonable limits. Although we found instances in which benefits were paid in error, the types and extent of non-compliance were not significant to the program as a whole. The department, however, could improve its efforts to detect and prevent payments to ineligible clients by timely performing analytical reviews and further expediting investigations of suspected ineligibles.

- *Department of Education: Contracting Practices (#2003-17), May 12, 2003*

The purpose of this audit was to determine if the Department of Education's contract procurement and administration practices are adequate and comply with applicable laws and regulations. Our audit identified opportunities for the department to improve in the areas of contract solicitation and selection, contract administration, and the payment approval process. Specifically, our recommendations address such problems as improper or inadequate: solicitation practices, sole source justification, documentation retention, contract approval prior to performance, contract amendments, and retention of deliverables to support payments.

2001-2003 Informational Reports

- *Department of Human Services: Office of Medical Assistance Programs – Encounter Data Audit (#2002-02), January 3, 2002*

The purpose of this audit of the Office of Medical Assistance Programs was to determine whether the office needed accurate and complete client encounter data to manage its programs, and if so, whether the office had taken adequate steps to ensure the reliability of the information. We found that the reliability of encounter data is important because the office uses it extensively in making management and policy decisions, including the development of capitation payment rates. We found that the office was using encounter data without adequately ensuring its reliability. As a result, key Oregon Health Plan funding, policy, and management decisions were being based on data of unknown and questionable quality.

- *Department of Human Services: Institutional Pharmacy Costs (#2002-25), June 13, 2002*

This audit was conducted in response to a request from the Senate president and the governor's office. The audit provides information on institutional pharmacies' costs to supply drugs to Medicaid recipients in Oregon nursing homes. The audit showed that during calendar year 2000, institutional pharmacies purchased drugs at a weighted "average wholesale price" minus 26.7 percent. The pharmacies' cost to dispense drugs averaged approximately \$10.97 per prescription; however, this figure includes \$2.20 for delivery costs, \$1.98 for consulting pharmacists' costs, and other items that need to be reviewed to determine whether they should be reimbursed under this formula. The audit report recommends that the department work with decision makers to determine what, if any, pharmacy dispensing costs should be included in the state's reimbursement formula, and to consider adjusting reimbursement rates to reflect pharmacies' actual costs.

- *Deschutes County Delinquent Youth Demonstration Project (#2002-29), June 28, 2002*

As required by statute, we reviewed the costs and accomplishments of the Deschutes County delinquent youth demonstration project and compared them to the state's juvenile corrections system. The Deschutes County demonstration project featured shorter, less expensive detention periods with more emphasis on community service, restitution, and victim support. We found that county offenders served about half the time that state offenders served and they spent less than one third as much time in aftercare. Consequently, the state system offered more direct public protection because juvenile offenders were incarcerated for longer periods of time. Finally, our audit found that neither system demonstrated a clear advantage over the other in terms of preventing a youth's return to criminal behavior.



2001-2003 Informational Reports (cont.)

- *Department of Administrative Services: State Agency Energy Conservation 2001 (#2002-32), September 6, 2002*

The purpose of this audit was to determine the extent to which state government reduced its use of energy in state-owned buildings in response to the governor's State Energy Conservation Plan that began in January 2001. From January 2001 through June 2001, agencies reduced their use of electricity by 7.7 percent, representing a savings of approximately \$850,000. During that same time period, agencies reduced their use of natural gas by 2.1 percent, representing a savings of approximately \$230,000.

- *Department of Fish and Wildlife: Hatchery Cost Effectiveness (#2002-39), November 7, 2002*

The purpose of this audit was to assess the cost-effectiveness of producing salmon at state funded hatcheries. Our evaluation provides decision makers with relative comparisons between hatcheries and establishes a baseline to measure cost effectiveness over time. We found that the cost to produce a pound of salmon or trout at state funded hatcheries varied considerably, ranging from \$4.08 per pound at the Butte Falls hatchery to \$9.09 per pound at the Clackamas hatchery. Similarly, we found a considerable variation in the cost to produce an adult salmon that was eventually caught or returned to freshwater for spawning. Fall Chinook costs ranged from \$14 per fish for fish produced by the Salmon River hatchery to \$176 per fish for fish produced by the Rock Creek hatchery. Spring Chinook costs ranged from \$90 per fish from the Cedar Creek hatchery to \$254 per fish from the McKenzie hatchery. Finally, Coho costs ranged from \$67 per fish from the Nehalem hatchery to \$530 per fish from the Bandon hatchery.

- *Oregon Department of Education: Kindergarten Through 12th Grade Cost Survey (#2002-45), December 4, 2002*

The purpose of this audit was to provide information on Oregon's Kindergarten through 12th grade (K-12) spending. We analyzed data from 197 Oregon school districts to show differences in spending patterns among districts. We found that Oregon schools and school districts are smaller than the national average and that the size of school districts heavily influence district spending. Oregon historically has spent slightly less per student on instruction than the national average; however, Oregon is above the national average in support services expenditures. There were large variances in the spending for instructional purchased services, student support, and other support services between Oregon and the rest of the nation. There were also large variances between school districts in the same size categories.



2001-2003 Informational Reports (cont.)

- *Follow-Up Review of Internal Auditing Functions in State Agencies (#2003-09), March 12, 2003*

Internal auditing is one of the key mechanisms available to agency management to help ensure strong fiscal accountability over public funds. The purpose of this review was to compare the status of internal auditing in state agencies during 2002 to the status described in our 1996 audit report *Review Of Internal Auditing Functions In State Agencies* (Report No. 96-53). During 2002, state agencies that had an internal audit function were implementing substantially more of the recommended practices described in our 1996 audit report. However, only three of 11 agencies with an internal audit function had implemented all of the recommended practices. Since the release of our 1996 report, two agencies had established new internal audit functions, but 11 of the state's larger agencies had not established an internal audit function, and another five agencies had no audit coverage due to vacant internal auditor positions. Another seven agencies with budgeted internal audit positions had allowed vacancies to remain unfilled for six months or more. As a result, approximately one third of the state's budgeted resources are at increased risk of loss, waste, and misuse due to lack of internal audit coverage.



Information Technology Audits

As information technology proliferates throughout organizations, new or unforeseen business risks emerge. The integration of technology into nearly all aspects of business poses opportunities and challenges for all.

Establishing Adequate Controls

Computers are an integral part of state government, processing billions of dollars in financial transactions each year and helping control the operations of state agencies. Since financial transactions and confidential information are processed using computer systems, audits of information system controls and activities are necessary to ensure that computer processing is secure and accurate.

Information technology audits fall into four major categories: general control reviews, application control reviews, security reviews, or system development reviews. General control reviews evaluate the controls designed to protect the environment in which systems operate, including system backup, physical and logical security, and disaster recovery procedures. Application control reviews look at specific computer applications to see if the data remains complete, accurate, and valid during input, update, processing, and storage. Security reviews can either focus on an agency's overall security framework or on specific aspects of security. Finally, system development reviews evaluate controls governing acquisition, implementation, and maintenance of computer systems.

During fiscal years 2001-2003, we issued 11 information technology reports. Most of these audits focused on general and application controls, security, and system development over mission critical information systems. We also focused some of our audit efforts on reviewing the Department of Administrative Services' guidance governing all of these areas.



2001-2003 Information Technology Audits

- *Department of Administrative Services: Information Resources Management Division Review (#2001-33), August 6, 2001*

The purpose of this audit was to determine whether the Department of Administrative Services Information Resources Management Division had established adequate direction to govern enterprise-wide policies and procedures for information technology, whether it had sufficient controls over its own system development projects, and whether its business processes provided a reasonable basis for charging its customers. We found that the division did not provide adequate guidance and direction to other state agencies to govern the state's information technology resources, the division did not have adequate controls to manage its own system development projects, and the division's processes for charging its customers should be improved.

- *Department of Human Services: Security Controls for Computer Applications (#2001-37), August 28, 2001*

This audit evaluated the adequacy of the Department of Human Services security controls for computer applications intended to protect health and welfare information. We found that because security has not received an appropriate level of attention and resources, the department was unable to protect confidential health and welfare information, and incurred losses due to employee theft.

- *Department of Administrative Services: Data Center General Controls Review (#2001-50), November 15, 2001*

The purpose of this audit was to evaluate the adequacy of general computer controls in place at the Department of Administrative Services' data center. We found that the data center's general controls could be improved to further protect its equipment and people. Specifically, the department could improve its disaster recovery and contingency planning to ensure services can be restored in the event of a disruption. In addition, the department needs to fully develop, implement, and enforce policies and procedures to limit physical and logical access to its equipment and data; fully develop, document, and implement formal systems development methodologies addressing systems software and hardware; fully develop and implement procedures to protect its systems and people from environmental hazards; and provide periodic internal audit reviews of the data center.



2001-2003 Information Technology Audits (cont).

- *Oregon Department of Transportation: Data Center General Controls Review (#2001-51), November 15, 2001*

The purpose of this audit was to evaluate the adequacy of general controls in place at the Oregon Department of Transportation data center. We found that the data center's general controls could be improved to further protect its equipment and people. Specifically, the department could improve its disaster recovery and contingency planning to ensure services can be restored in the event of a disruption. In addition, the department needs to fully develop, implement, and enforce policies and procedures to limit physical and logical access to its equipment and data; fully develop, document, and implement formal systems development methodologies addressing systems software and hardware; fully develop and implement procedures to protect its systems and people from environmental hazards; and provide periodic internal audit reviews of the data center.

- *Department of Human Services: Evaluation of General Computer Controls (#2001-55), December 26, 2001*

The purpose of this audit was to evaluate general computer controls at the Department of Human Services' data center. We found that the department had neither provided adequate physical security for its data center, nor sufficiently restricted data center employees' access to systems and data. In addition, the department had not developed adequate disaster recovery and contingency plans to ensure timely resumption of data center operations. We also found that the department needed to strengthen several operational controls, and had not implemented a significant number of recommendations pertaining to findings in prior audit reports.

- *Department of Administrative Services: Statewide Systems Development Review (#2002-13), March 29, 2002*

The purpose of this audit was to follow up on a prior audit that found that the Department of Administrative Services did not provide state agencies adequate policies and procedures to govern use of Information Technology. Specifically, this audit examined whether state agencies had independently adopted formal policies and procedures governing the development and maintenance of information technology systems at six state agencies. Four of the six agencies we reviewed had no formal policies and procedures governing information technology system development and maintenance.



20Q1-2003 Information Technology Audits (cont.)

- *Oregon State Lottery Commission: Video Lottery System Application Controls Review (#2002-33), October 1, 2002*

The purpose of our audit was to determine whether the Oregon State Lottery Commission's information technology controls over the Video Lottery System provided reasonable assurance that: system data remained complete, accurate, and valid; processes for acquiring and maintaining the system were reasonably controlled. We concluded that application controls were sufficient to provide reasonable assurance that data would remain complete, valid, and accurate through the various system processes. Controls for acquiring information technology solutions and managing contracted services, however, needed improvement. Specific opportunities for growth included system testing and acceptance, and contract administration. As a result, Lottery incurred avoidable costs totaling more than \$264,000.

- *Oregon Youth Authority: Evaluation of Juvenile Justice Information System General and Application Controls (#2002-44), November 27, 2002*

The purpose of this audit was to determine if the Juvenile Justice Information System administered by the Oregon Youth Authority contained necessary information for evaluating the effectiveness of Oregon's juvenile justice system programs and services. In addition, we evaluated the integrity of the information system and data. We found that the system did not contain complete information for evaluating the effectiveness of Oregon's juvenile justice system programs, services and policies. The database provided useful information, but certain data were not valid or not entered consistently. In addition, the youth authority had not adequately controlled access to the system. Furthermore, the youth authority had not separated the process for implementing changes to the system from the design and development phases.

- *Oregon Employment Department: Review of Oregon Benefit Information System Controls (#2003-12), March 21, 2003*

The Employment Department's Oregon Benefit Information System processes unemployment assistance claims for qualified unemployed workers. The purpose of our audit was to evaluate controls ensuring data integrity, system security, program change control, and business continuity. The system produced reliable data. Unemployment benefits were calculated correctly and key data remained valid within the system during processing and update; however, the department's efforts to secure the system were insufficient. Security areas needing improvement included controls over screen-level access, and safeguards to protect production files and data. Security policies and procedures were also incomplete. Significant opportunities for improvement also exist regarding controls governing system maintenance and business continuity.



2001-2003 Information Technology Audits (cont.)

- *Oregon Department of Revenue: Corporation Automatic Tax-Application Controls Review (#2003-14), April 15, 2003*

The purpose of this audit was to evaluate whether data processed by the Department of Revenue's Corporation Automatic Tax system remained complete, accurate and valid throughout the data management process, and to evaluate the processes used for systems development and ongoing maintenance, physical and logical security, and disaster recovery and contingency planning. We also conducted a follow up on prior audit findings. We determined that the system generally maintained the completeness, accuracy and validity of the data; however, we did find several minor programming errors warranting management's attention. We also found that processes relating to systems development and maintenance activities, physical and logical security, and disaster recovery and contingency planning could be improved. Finally, we found that the department fully implemented three of 15 prior audit recommendations.

- *Department of Administrative Services: Information Resources Management Division Follow Up (#2003-20), June 3, 2003*

The purpose of this audit was to determine whether the Department of Administrative Services' data archive center had been meeting its primary business objective and to follow up on the status of prior audit findings included in our August 2001, audit report *Department of Administrative Services: Information Resources Management Division Review* (Report No. 2001-33). We found that the Department of Administrative Services' computer archive center was not meeting its primary business objective of providing a significant off-site computer data backup and storage solution for the state's computer systems. As a result, this large investment needs to be reevaluated. In following up on prior audit recommendations, we found that the department: had made significant improvements to its strategic planning process; had not yet developed or adopted statewide rules, policies, procedures and guidelines governing the state's use of information technology as directed by statute; had not adopted industry standard System Development Life Cycle methodologies to reduce its system development risks; and needed to improve its rate setting process to ensure that its charges to other state agencies provide equitable and accurate cost allocation and recovery.



Investigations

According to the Association of Certified Fraud Examiners, on-the-job fraud and abuse costs employers an average of \$9 per day per employee.

Uncovering Improper Activities

An improper governmental activity is any activity by a state agency or a state employee occurring in the employee’s official capacity that violates a state or federal law or regulation; is economically wasteful; or involves gross misconduct, incompetence, or inefficiency. Our office receives and investigates allegations related to improper governmental activities by state employees or agencies.

Some investigations are spurred from calls received on our Government Waste Hotline. Other investigations are initiated when our auditors, while on another assignment, become aware of inappropriate or suspicious activity during the course of other audit work. We also conduct investigations after being notified of potential problems by agency managers and other government officials.

Our first priority is to work with state agencies to establish sound processes and practices to prevent improper activities from occurring in the first place. However, when a loss has occurred, our role is to ensure that the full extent of the loss is identified and to determine the breakdown in controls that allowed the loss to happen in order to prevent future occurrences. Although we investigate improper governmental activities, we do not have enforcement powers. After we substantiate an allegation, we report the details to the state agency and other appropriate authorities.

During fiscal years 2001-2003, we issued five investigation reports. One of these reports, the audit of the Division of State Lands Trust Property Section, was conducted at the request of the agency director, and was a proactive investigation to address control weaknesses identified by agency management. Another investigation, the Oregon Commission on Hispanic Affairs Change of Director audit, looked at allegations we received regarding misuse of funds by the director, and also fulfilled our responsibility under ORS 297.210(2), which requires an audit or review when the executive head of a state agency leaves that position.



2001-2003 Investigations

- *Oregon State University: Hatfield Marine Science Center – Loss of Funds (#2001-30), July 13, 2001*

This audit investigated personal charges made to a state procurement card and reviewed the cash handling practices at the Hatfield Marine Science Center, an operation of Oregon State University. As a result of our investigation into personal charges on a state procurement card, we determined that cash was missing from the Hatfield Marine Science Center's bookstore receipts. Inadequate controls and records made it impossible to verify that all funds from the center's donation box had been accounted for properly. As a result, the actual loss may have been higher than the \$6,300 amount we were able to identify with available records. Our review encompassed July 1998 through March 2000, with limitations imposed by missing cash register tapes. We referred this matter to the Oregon State Police and the Lincoln County District Attorney's office.

- *Teachers Standards and Practices Commission: Special Review (#2001-34), August 22, 2001*

This report summarizes our review of certain cash handling, payroll, and other issues at the Teacher Standards and Practices Commission. This audit resulted from allegations received through the Government Waste and Abuse Hotline. We found no evidence to support an allegation that payments received had not been deposited. We did find that the commission's cash controls needed improvement. In addition, the commission had not complied with certain laws and regulations for the employment of minors and children of employees. We also found that the commission should improve its supervision of employees on flexible work schedules.

- *Oregon State University: Review of the Valley Library Expansion Project (#2001-53), December 17, 2001*

During the course of other audit work at Oregon State University, questions arose regarding the university's contractor selection process for the Valley Library expansion project and the circumstances surrounding a \$421,000 settlement payment from the university to a contractor at the end of the project. We found that the university did not adequately document its procedures for selecting either the project contractor or the architect. We also found that the state and the university designed and negotiated a contract that lacked clear provisions for guiding key contracting decisions. In particular, the contract did not clearly describe which costs incurred by the contractor and subcontractors as part of the project would be considered reimbursable. Lacking clear contract language, the university, the contractor, and certain subcontractors took disputed actions that resulted in increased costs to the state.



20Q1-2003 Investigations (cont.)

- *Division of State Lands: Trust Property Section Internal Controls Review (#2001-56), December 28, 2001*

This audit was conducted at the request of the director of the Division of State Lands. Our objective was to assess the division's controls over the collection, accounting, and disposition of trust property assets, which are managed by the division's Trust Property section. We also attempted to determine if the division incurred losses resulting from trust property control weaknesses, such as inadequately limited employee computer access to the unclaimed property computer system; improperly secured physical access to trust property assets; insufficient procedures to ensure that maximum sales prices were received for trust properties at auction; inadequate segregation of duties for inventorying, accounting and disposing of estate assets; insufficient procedures to adequately reconcile auction proceeds, estate records, and trust property records; and insufficient procedures to manage unclaimed securities. Also, the division repurchased securities for claimants and did not pursue recovery of overpayments made to claimants. These actions do not appear to comply with state law. Our review did not identify any specific losses but, in many instances, we could not determine whether losses had occurred because the division's records were insufficient.

- *Oregon Commission on Hispanic Affairs: Change of Director Audit (#2002-04), January 3, 2002*

This review followed allegations received regarding questionable activities by the former director of the Oregon Commission on Hispanic Affairs. We found that the commission delegated significant authority to the director without providing adequate review of his activities. As a result, the former director may have abused his authority and did not adequately account for or safeguard state assets. The former director expended commission funds totaling approximately \$3,680 for personal use. We also identified other instances in which the former director misused state resources or violated state rules, including misreported leave that resulted in an overpayment of approximately \$1,500. We also noted two occasions where the former director may have used his position for personal benefit by obtaining state contracts totaling \$14,000. We referred this matter to the Oregon State Police, the Marion County District Attorney's office, and the Government Standards and Practices Commission.



Conclusion

The Audits Division provides a valuable service to government and the public by ensuring that tax dollars are properly accounted for and are spent as intended. In the last biennium, 100 audits identified more than \$25 million dollars that could be spent more efficiently or economically and made numerous recommendations to improve the operation of Oregon state government. With the continued cooperation of government officials and the public, the Audits Division will continue to provide value to the people of Oregon by fulfilling its mission of protecting the public interest and improving Oregon government.